

# Small businesses are feeling the squeeze of inflation

Research snapshot  
September 2022

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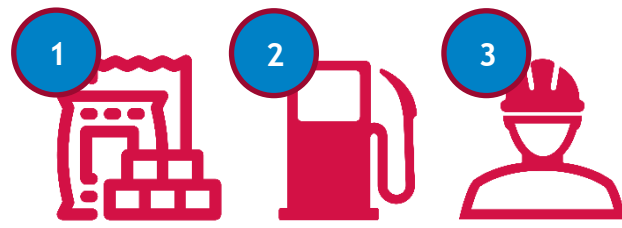
# Highlights

79%

of small businesses raised their prices more than usual in the **past** twelve months.

32%

of small businesses plan to raise their prices by 6% or more in the **next** twelve months.



The top factors causing small business owners to increase prices are inputs (materials, ingredients, etc.), fuel and labour, in that order.

62%

of small businesses still hold pandemic debt.

7  
in 10

Small businesses expect the Bank of Canada's interest rate hikes to have a negative impact on their operations.

# Context: rampant inflation and a grim financial reality for small businesses



8.1%

In June 2022, the Canadian consumer price index rose to 8.1%, its largest yearly change since January 1983. Inflation fell slightly but remained very high in July at 7.6%.



62%

Meanwhile, a majority of small businesses must contend with higher interest rates on commercial loans due to policy rate hikes while (62%) still hold pandemic debt.



In September 2022, the Bank of Canada raised its key interest rate by 75 basis points (0.75%) to 3.25%. This was the fifth consecutive increase this year. The key interest rate, which stood at 0.25% less than six months ago, thus increased by 300 basis points (3%) over the entire period.



8/10

Furthermore, eight in ten (81%) small businesses, think the federal government misunderstands the cost pressures they face.

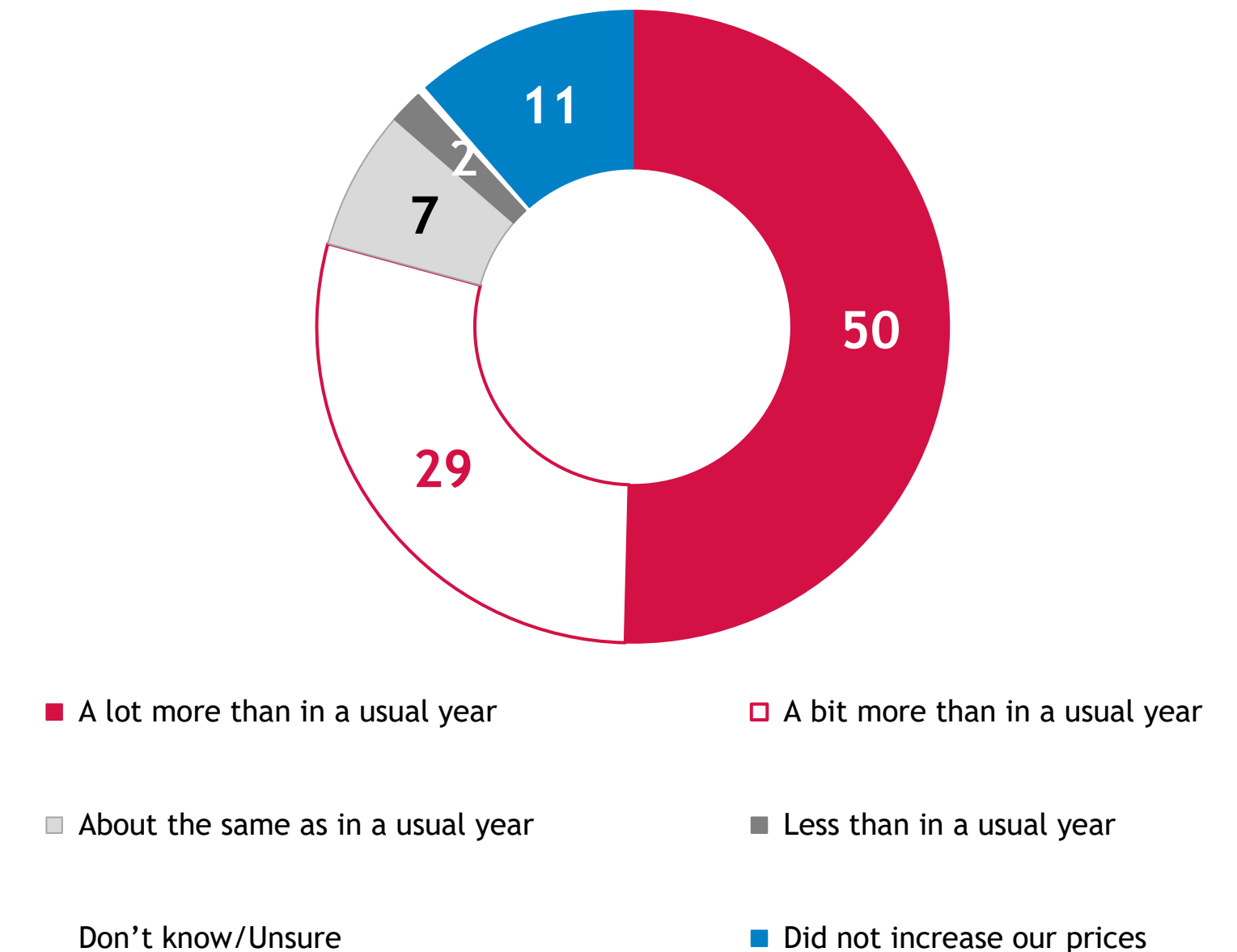
Sources: 1) Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted  
2) <https://wowa.ca/bank-of-canada-interest-rate>  
3) CFIB, Your Voice - June 2022 survey conducted June 9-30, 2022, final results, n =2,490

# Impact: small businesses have had to raise their prices much more than usual (1)

Since mid-2021, small businesses across all sectors have had to raise their prices more than usual to compensate for rising costs.

As shown in Figure 1, nearly 8 in 10 small business owners said they raised their prices more than they usually would have in a normal, pre-pandemic year. Half of all businesses reported having to raise their prices a lot more than usual.

Figure 1: Price increases by Canadian small businesses in the past twelve months (% response)



Source: CFIB, Your Voice - June 2022 survey conducted June 9-30, 2022, final results, n = 2,316.  
Note: Totals may differ from 100 due to rounding.



The pandemic has wreaked total havoc. Where did all the workers go? We can't develop and grow our business under these conditions. I've also noticed customers are having more trouble paying. All of our input costs have gone up, labour costs have gone up, but when we try to compensate by raising prices, our customers complain. We need an economic course correction.

- Hospitality business owner, Quebec



# Impact: small businesses have had to raise their prices much more than usual (2)

Construction (92%), manufacturing (90%), wholesale (88%), hospitality (86%), retail (85%) and transportation (84%) were the sectors most affected and increased their prices the most compared to a normal year.

By province, SMEs in Manitoba lead the way (86%), followed by SMEs in Quebec (82%), British Columbia (80%), Ontario and Prince Edward Island (80%). Of note, in all provinces, the share of SMEs with year-over-year increases above normal is 70% or more.

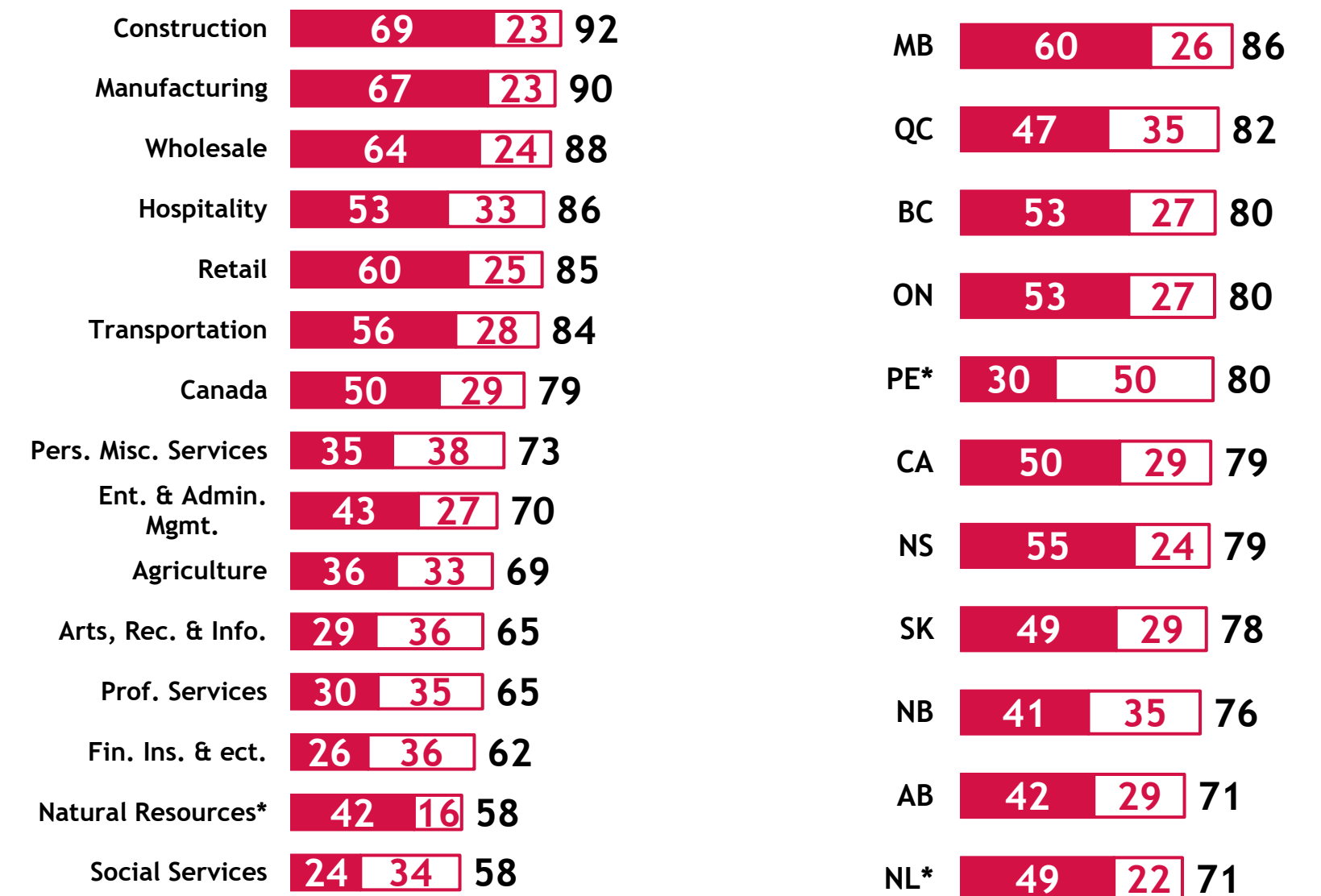


Raw material shortages, skyrocketing parts, components, materials, labour, insurance, fuel/heating and electricity costs - everything costs more. Doing business in Canada is becoming too costly, and for suppliers/manufacturers like us, it feels like the end. Consumers are looking for cheaper alternatives and big businesses are outsourcing production to keep costs low.

- Manufacturing business owner, Ontario



Figure 2: Price increases by Canadian small businesses in the past twelve months (% response, by sector and province)



■ A lot more than in a usual year

□ A bit more than in a usual year

Source: CFIB, Your Voice - June 2022 survey conducted June 9-30, 2022, final results, n = 2,316.

Note: \*Small sample size (<40).

# Trend: pressure remains high, but fewer major hikes ahead?

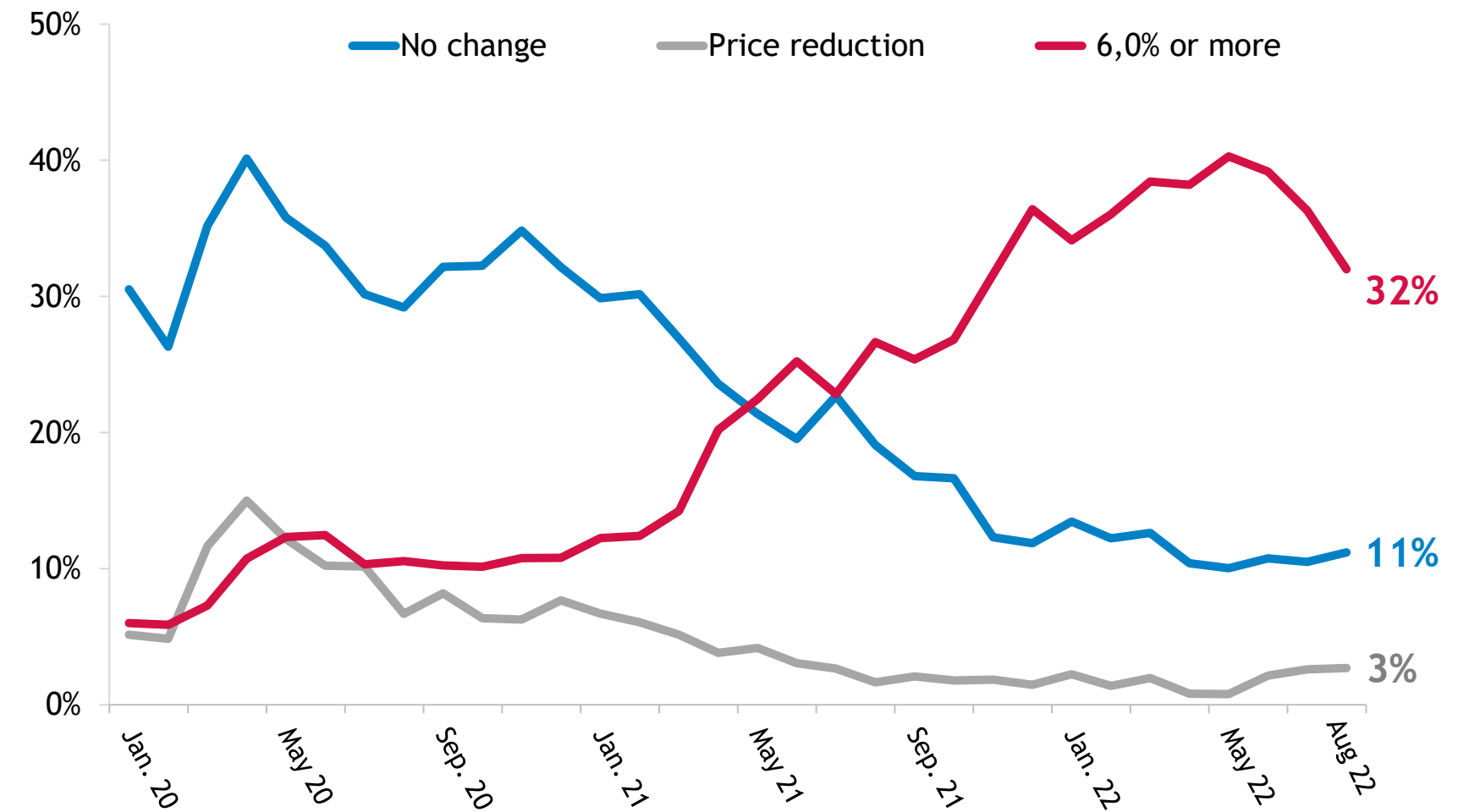
CFIB's monthly Business Barometer® survey has helped track inflationary pressures since the start of the pandemic and provides an outlook on small businesses' future price plans (Figure 3).

- After a peak of 39% in June, the share of small businesses that reported wanting to raise their prices by 6% or more dropped to 32% in August 2022. Many small businesses are considering smaller price increases (between 0.5% and 5.5%).
- Unsurprisingly, the share of small businesses preferring not to change their prices shrank by two thirds to 11% since January 2020.
- Only 3% of businesses reported wanting to reduce their prices.

These trends clearly show that small businesses have faced greater inflationary pressures over the last few years, but some recent data suggests that their price increases may plateau or even begin to drop in the future.

(These data are available by province and sector in Appendix A.)

**Figure 3: Comparison of Canadian small businesses' future price plans, 2020-2022 (% response)**



Source: CFIB, Business Barometer®, January 2020-August 2022. More information at [cfib.ca/barometer](http://cfib.ca/barometer).  
Notes: Some answer choices (increase between 0% and 6%) are not displayed, so the total does not sum up to 100%.

# Inputs, transportation and labour have the biggest impact on small businesses' prices

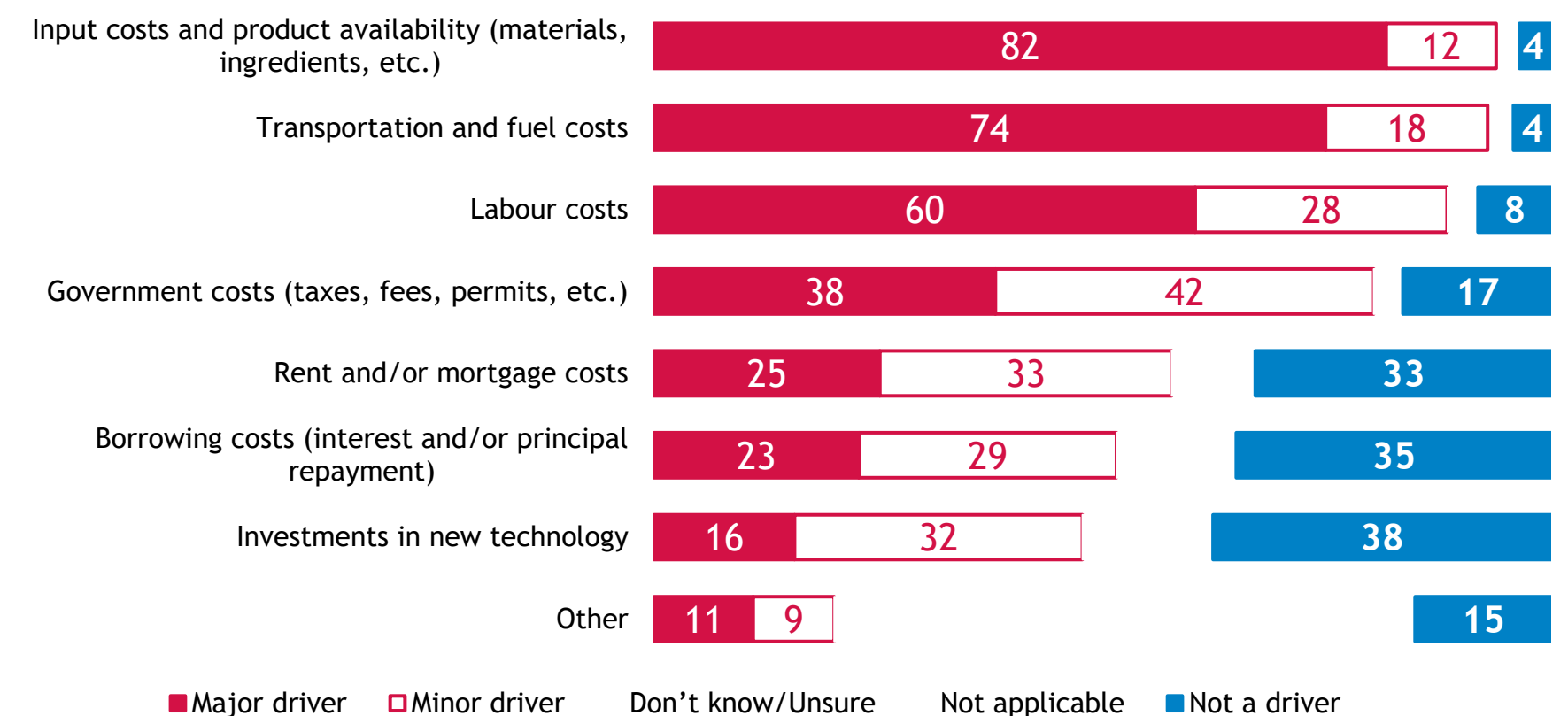
The rampant inflation we are seeing today is driven by high demand for goods and services coupled with growing significant production constraints.

The global economy has also undergone several supply-side upheavals. Supply-chain issues, the crisis in Ukraine and labour shortages all contribute to the challenges now faced by small businesses.

When asked about this in a recent CFIB survey, small business owners reported that input costs and product availability (82%), transportation and fuel costs (74%) and labour costs (60%) were the main drivers causing them to increase prices (Figure 4).

(These data are available by province and sector in Appendix B.)

**Figure 4: Drivers of price increases according to Canadian small business owners (% response)**



Source: CFIB, Your Voice - June 2022 survey, n = 2,006

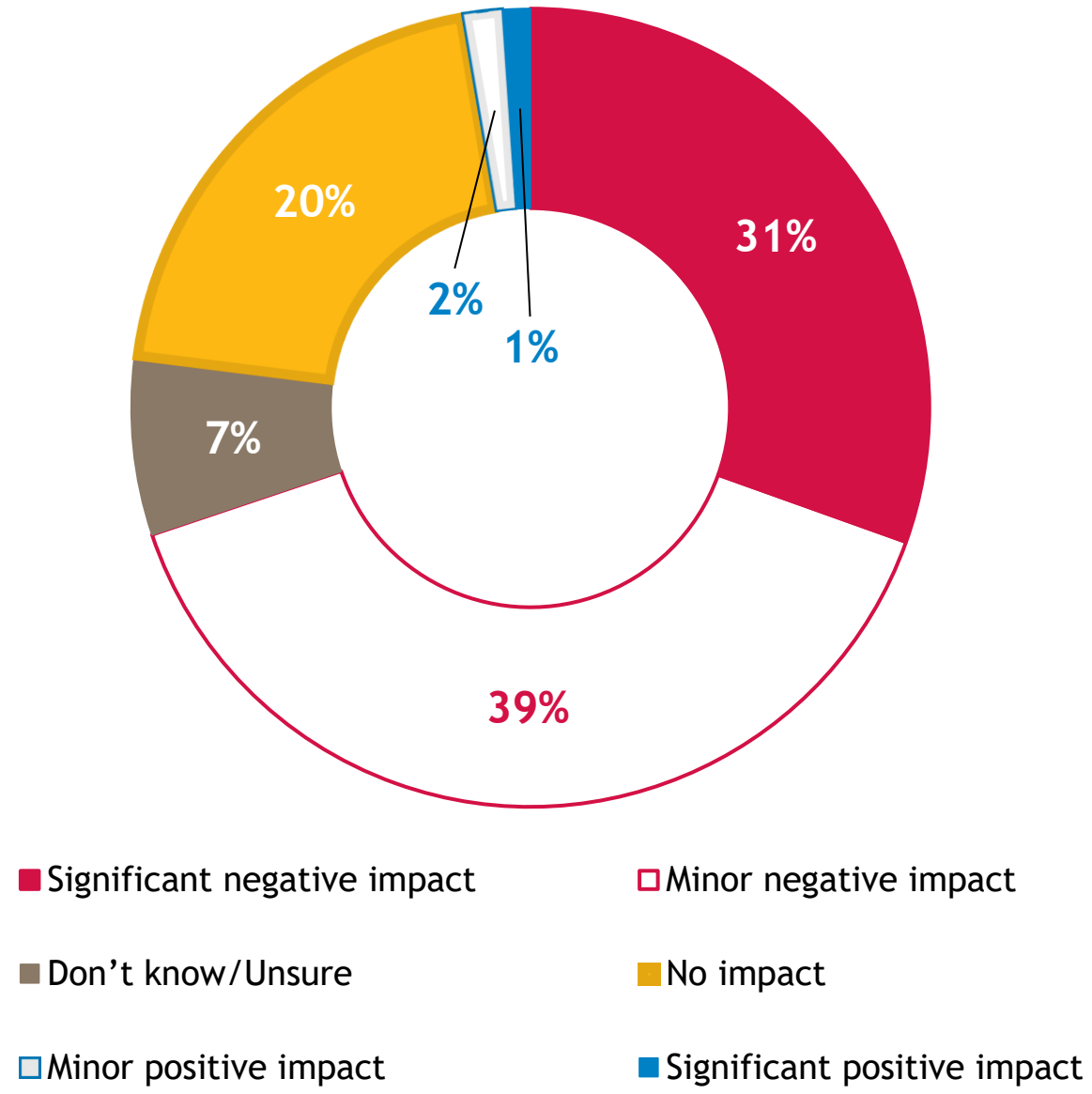
Note: The total percentages per bar differ from 100% since the share of respondents who answered, "Don't know/Unsure" and "N/A" is not shown.

# Small businesses are concerned about interest rate hikes

As was mentioned earlier, to curb inflation the Bank of Canada has recently begun a series of significant increases in its key interest rate. Small businesses expect these hikes to have a negative impact on their operations (Figure 5). Seven in ten small business owners indicate that this will have a negative impact on their business. Among them, 3 in 10 say the negative impact will be significant. This comes as no surprise given that most still carry an average of \$158,000 in pandemic debt.

(These data are available by province and sector in Appendix C.)

Figure 5: Expected impact of interest rate hikes on Canadian small businesses (% response)



Sources: Pandemic debt = CFIB, *Your Voice* - January 2022 survey, n = 2,727  
 Figure 5 = CFIB, *Your Voice* - June 2022 survey, n = 2,298

Note: Totals may differ from 100 due to rounding.

“ Customers’ consumer habits have changed very rapidly in the last six weeks. The rise in food, housing and fuel prices, along with interest rate hikes, lower consumer confidence and the public’s capacity to resume its pre-pandemic spending habits on things like travel, vacations and entertainment have changed the way money is spent in our commercial environment. ”

- Wholesale business owner, Ontario



# Appendix A - In the next year, how much do you expect average prices to change?

Table A1 - Sectors (% response)

	Agriculture	Natural Resources*	Construction	Manufacturing	Wholesale	Retail	Transportation	Arts, Recreation & Information	Finance, Insurance, Real Estate & Leasing	Professional Services	Enterprises & Admin. Mgmt.	Social Services	Hospitality	Personal, Misc. Services
No change	26	0	10	6	5	8	12	28	11	18	6	18	6	14
Price reduction	4	0	2	6	2	1	12	4	5	0	0	3	2	0
+6.0% or more	30	20	37	45	28	28	31	23	23	23	33	25	33	32

Table A2 - Provinces (% response)

	BC	AB	SK	MB	ON	QC	NB	NS	PE*	NL*
No change	8	11	4	14	13	6	20	7	12	22
Price reduction	2	1	4	3	3	2	4	0	0	0
+6.0% or more	40	37	25	32	30	34	33	23	25	11

Source: CFIB, Business Barometer®, January 2020-August 2022. More information at [cfib.ca/barometer](http://cfib.ca/barometer).

Notes: Some answer choices (increase between 0% and 6%) are not displayed, so the total does not sum up to 100%.

\*Small sample (<40)

# Appendix B - Importance of some factors on the decision to increase their prices in the last 12 months, according to SME owners

Table B1 - Sectors (% response «Major importance »)

	Agriculture	Natural Resources*	Construction	Manufacturing	Wholesale	Retail	Transportation	Arts, Recreation & Information	Finance, Insurance, Real Estate & Leasing	Professional Services	Enterprises & Admin. Mgmt.	Social Services	Hospitality	Personal, Misc. Services
Input costs and product availability (materials, ingredients, etc.)	89	76	93	97	87	85	69	62	64	51	64	57	91	77
Transportation and fuel costs	86	81	87	83	88	82	93	46	61	39	74	38	72	65
Labour costs	44	74	66	64	48	50	55	81	57	62	72	66	82	65

Table B2 - Provinces (% response « Major importance »)

	BC	AB	SK	MB	ON	QC	NB	NS	PE*	NL*
Input costs and product availability (materials, ingredients, etc.)	86	81	78	85	81	78	78	76	80	87
Transportation and fuel costs	72	80	71	73	73	77	72	64	80	86
Labour costs	67	50	56	46	59	70	68	57	40	64

Source: CFIB, Your Voice - June 2022 survey, n = 2,006  
 Note : \*Small sample (<40)

# Appendix C - Expected impact of rate hikes on Canadian small businesses

Table C1 - Sectors (% response)

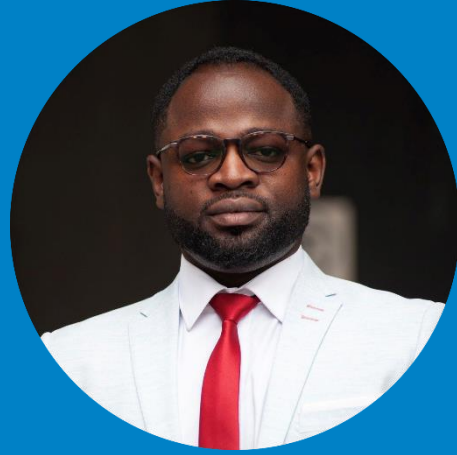
	Agriculture	Natural Resources*	Construction	Manufacturing	Wholesale	Retail	Transportation	Arts, Recreation & Information	Finance, Insurance, Real Estate & Leasing	Professional Services	Enterprises & Admin. Mgmt.	Social Services	Hospitality	Personal, Misc. Services
<b>Significant negative impact</b>	34	20	35	27	27	29	40	28	32	21	29	30	41	33
<b>Minor negative impact</b>	43	50	36	44	49	41	38	48	42	42	41	31	27	33
<b>Total</b>	77	70	71	71	76	70	78	76	74	63	70	61	68	66

Table C2 - Provinces (% response)

	BC	AB	SK	MB	ON	QC	NB	NS	PE*	NL*
<b>Significant negative impact</b>	30	37	26	31	29	28	30	33	40	51
<b>Minor negative impact</b>	40	37	41	40	37	47	43	35	50	24
<b>Total</b>	70	74	67	71	66	75	73	68	90	75

Source: CFIB, Your Voice - June 2022 survey, n = 2,298  
 Note : \*Small sample (<40)

## About the authors



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